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No. 96-1470

In The

Supreme Court of the United States

October Term, 1996

QUALITY KING DISTRIBUTORS, INC., a New York corporation,

Petitioner,

vs.

L'ANZA RESEARCH INTERNATIONAL, INC.,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

RESPONDENT'S BRIEF IN OPPOSITION

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CORPORATE DISCLOSURE STATEMENT PURSUANT TO RULE 29.6 OF THE RULES OF THE SUPREME COURT

Respondent L'anza Research International, Inc., a California corporation, has no parent company or nonwholly-owned subsidiary.

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2 Goldstein, *Copyright*, § 5.6.1.2 "Limits on the First Sale Exemption" (2d ed. 1996) 18, 19

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Appendix A — Satisfaction of Judgment of the United States District Court for the Central District of California, Western Division Filed March 25, 1997 ..... 1a

Appendix B — Judgment on Special Verdict of the Superior Court of the State of California for the County of Los Angeles Filed August 30, 1995 ..... 3a

OPINIONS BELOW

Petitioner Quality King Distributors, Inc. ("Quality King"), a New York corporation, has attached copies of the decisions of the District Court and the United States Court of Appeals for the Ninth Circuit in *L'anza Research International, Inc. v. Quality King Distributors, Inc.*, to its petition for writ of certiorari as appendices A and B, respectively. As more fully discussed within, Quality King has paid the judgment and has required a satisfaction of judgment, and a copy of that satisfaction of judgment is reprinted as Appendix A. As also more fully discussed within, judgment in the state court action, captioned *L'anza Research International, Inc., a California corporation, Plaintiff v. Quality King, Inc., a New York corporation, et al., Defendants*, Los Angeles County Superior Court Case No. BC 089231, was filed on August 30, 1995, and that judgment included a permanent injunction and is reprinted at Appendix B.[1]

STATUTORY PROVISIONS INVOLVED

Respondent L'anza Research International, Inc. ("L'anza") concurs with Quality King that its petition concerns the provisions of the Copyright Act of 1976, 17 U.S.C. §§ 106, 109(a), and 602(a), cited in the petition. However, L'anza contends that 17 U.S.C. §§ 501 and 603 are also involved.

The Copyright Act of 1976, 17 U.S.C. § 501(a) provides:

> (a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or of the author as provided in section 106A(a), or who imports copies or phonorecords into the

1. The *L'anza* state court judgment is currently on appeal, California Court of Appeal, Second District, Case No. 2d Civil B097409.

United States in violation of section 602, is an infringer of the copyright or right of the author, as the case may be. For purposes of this chapter (other than section 506), any reference to copyright shall be deemed to include the rights conferred by section 106A(a). As used in this subsection, the term "anyone" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.

The Copyright Act of 1976, 17 U.S.C. § 603, as amended in 1996, provides:

(a) The Secretary of the Treasury and the United States Postal Service shall separately or jointly make regulations for the enforcement of the provisions of this title prohibiting importation.

(b) These regulations may require, as a condition, for the exclusion of articles under section 602 —

(1) that the person seeking exclusion obtain a court order enjoining importation of the articles; or

(2) that the person seeking exclusion furnish proof, of a specified nature and in accordance with prescribed procedures, that the copyright in which such person claims an interest is valid and that the importation would violate the prohibition in section 602; the person seeking exclusion may also be required to post a surety bond for any injury that may result if the detention or exclusion of the articles proves to be unjustified.

(c) Articles imported in violation of the importation prohibitions of this title are subject to seizure and forfeiture in the same manner as property imported in violation of the customs revenue laws. Forfeited articles shall be destroyed as directed by the Secretary of the Treasury or the court, as the case may be.

STATEMENT OF THE CASE

This case concerns the ability of a copyright holder to control the distribution of its copyrighted products when those products have been acquired outside of the United States and imported into the United States without the copyright holder's permission. The L'anza products at issue were acquired outside of the United States and imported into the United States without L'anza's permission and distributed by Quality King. *L'anza Research Intern. v. Quality King Distributors*, 98 F.3d 1109, 1118 (9th Cir. 1996) (and appendices to petition for writ of certiorari ("Pet. App.") at A17). As a result, L'anza sued Quality King for copyright infringement under 17 U.S.C. § 602(a).

A. Material Facts.

L'anza formulates and distributes high quality professional hair care products which are sold exclusively through professional beauty salons and colleges and professional barber salons and colleges ("the authorized channels of distribution"). *See* 98 F.3d at 1111 (Pet. App. at A2). L'anza has advertised extensively in the United States market to create and maintain a reputation for selling exclusive high quality products which are only available through the authorized channels of distribution.

L'anza assures that its products are sold by its distributors in the United States solely in their own territories and solely through the authorized channels of distribution by including provisions in its distributorship contracts limiting the distributors' right to distribute to certain identified geographical areas within the United States and only through the authorized channels of distribution. *Id.* L'anza also sells its products abroad through master distributors whose distribution areas are limited to defined geographical areas outside of the United States. *Id.*

L'anza has never authorized any party at any time to import into the United States any of its products that have been sold abroad. *See id.* Moreover, L'anza discounts its sales abroad to its foreign master distributors by 35% to 40% below the level of prices that it charges to its U.S. distributors. *Id.* The discount is a reflection of the fact that L'anza's advertising focuses on the United States, and that through L'anza's advertising and promotional activities in the United States, it has already established a high quality distribution network in the United States.

Foreign distributors, on the other hand, have to establish their own channels of distribution and do not generally receive the benefit of L'anza's advertising and promotional activities in

the United States. *Id.* Consequently, the prices to these foreign master distributors do not reflect L'anza's advertising activities and pre-established channels of distribution in the United States. *See id.* Therefore, if and when a foreign distributor or someone who has purchased L'anza products from a foreign distributor imports L'anza products into the United States, L'anza is being deprived of its right to obtain the full value of its copyright with regard to sales in the United States.

In February 1994, L'anza discovered that its products were being sold at Vassey Drugs in Carmel, California. *Id.* Since every shipment of L'anza products includes products marked to allow tracing, L'anza was able to determine that the products being sold at Vassey Drugs had been purchased from L'Intertrade, a distributor in Malta, and imported without L'anza's authorization by Quality King. *Id.* The L'anza products had been manufactured in the United States and then sold through Planetary Eco, L'anza's distributor in the United Kingdom, to L'Intertrade. *Id.* L'anza had sold the products at a substantial discount with the understanding that they would be distributed in Malta and possibly Libya. *Id.* Instead, L'Intertrade sold the products to Quality King, which purchased in their entirety the three shipments that had been sent to the United Kingdom and imported the products back into the United States without L'anza's permission. *Id.* at 1111-1112 (*Id.* at A2-A3).

L'anza filed a complaint against Quality King and others who were selling L'anza products purchased from Quality King alleging that they had violated 17 U.S.C. § 602(a) by importing products to which L'anza owned the copyright without L'anza's permission. *Id.* Quality King responded, *inter alia*, by asserting the affirmative defense of the first sale doctrine of 17 U.S.C. § 109(a). *Id.* The district court granted L'anza's motion for an order specifying issues that exist without substantial controversy on May 4, 1995. *Id.*

In the interim, a state court action filed by L'anza against Quality King for business torts under California law, captioned *L'anza Research International, Inc., a California corporation, Plaintiff v. Quality King, Inc., a New York corporation, et al., Defendants*, Los Angeles County Superior Court Case No. BC089231, proceeded to trial on April 14, 1995. *Id.* at n.2. On May 18, 1995, the jury in the state court action returned its verdict in favor of L'anza and against Quality King awarding L'anza $480,000 in damages and finding by *clear and convincing evidence* that Quality King had acted with malice or fraud against L'anza. *See id.* The jury also rejected Quality King's affirmative defense that Quality King was the competitor of L'anza, and thus Quality King's conduct was privileged. (Appendices to opposition ("Opp. App.") at 7a.) On May 23, 1995, the jury returned its special verdict awarding L'anza $3.4 million in damages against Quality King. (*Id.* at 9a-10a.) L'anza subsequently was granted a permanent injunction, *inter alia*, as follows:

> IT IS FURTHER ORDERED, ADJUDGED AND DECREED that defendant Quality King Distributors, Inc., its agents, servants, employees, principals, subsidiaries, affiliates, or all those in active concert or participation with it are hereby enjoined and prohibited from purchasing, offering to sell, selling or in any way selling or transferring to others any L'anza hair care products that were originally sold by L'anza within the United States.

(*Id.* at 11a.)

On July 25, 1995, the district court also granted L'anza's motion for permanent injunction enjoining Quality King from importing and selling identified copyrighted L'anza products

that had been sold previously outside of the United States. 98 F.3d at 1112 (Pet. App. at A3).

The district court entered judgment in the amount of $132,616 in damages in favor of L'anza on September 29, 1995. *Id.* On or about March 12, 1997, Quality King paid the judgment and required a satisfaction of judgment. (Opp. App. at 1a-2a.) Quality King's petition was docketed on March 19, 1997.

REASONS FOR DENYING THE WRIT

I.

THE QUESTION RAISED BY THE PETITION IS MOOT.

The rule is well established that the United States Supreme Court may not decide moot questions or decide issues that cannot affect the result of the case. *United States v. Alaska S.S. Co.*, 253 U.S. 113, 116, 40 S. Ct. 448, 64 L. Ed. 808 (1920). As noted, on or before March 12, 1997, Quality King paid the judgment in this action, along with accrued interest, and Quality King required a satisfaction of judgment for filing with the court.[2] (Opp. App. at 1a-2a.) Quality King's petition for writ of certiorari was docketed on March 19, 1997. Thus, the issue raised by the petition has been rendered moot, and the petition should be denied.

II.

THE *SEBASTIAN* DECISION AND THE *L'ANZA* DECISION ARE DISTINGUISHABLE.

Quality King has based its petition for writ of certiorari on

2. The permanent injunction in the federal court action remains in effect.

the difference between the decision in *Sebastian Intern., Inc. v. Consumer Contacts [PTY] Ltd.*, 847 F.2d 1093 (3d Cir. 1988), and the *L'anza* decision, 98 F.3d 1109 (9th Cir. 1996). Quality King has argued that the facts in the *Sebastian* case and the *L'anza* case "are similar in all relevant respects. . . ." (Petition at p. 17.) However, the two decisions are, in fact, factually distinguishable in one very important respect.

In the *Sebastian* case, plaintiff Sebastian International, Inc. acknowledged that it had received full value for its copyrighted products. 847 F.2d 1093, 1099 n.2. The *Sebastian* court found this fact important. At page 1099, the court reasoned:

> Under the first sale doctrine, when plaintiff made and then sold its copies, it relinquished all further rights "to sell or otherwise dispose of possession of that copy." Unquestionably that includes any right to claim infringement of the section 106(3) distributive rights for copies made and sold in the United States. With respect to future distribution of those copies in this country, [footnote omitted] clearly the copyright owner already has received its reward through the purchase price.

L'anza, however, did not receive full value for its copyrighted products that were sold for distribution outside of the United States only. 98 F.3d at 1116-1117. The *L'anza* court found this distinction significant. At page 1117, the court explained:

> The *Sebastian* court arrived at a contrary conclusion because it found that the copyright owner received the full value for the products that it sold to the South African

> distributor, in the form of the purchase price. 847 F.2d at 1099. It may be that in *Sebastian*, the hair care products were not sold at a substantial discount, as they were in this case.

Consequently, the *Sebastian* decision and the *L'anza* decision are factually distinguishable in this important respect. Therefore, the court should deny the petition for writ of certiorari.

III.

POLICY CONSIDERATIONS DO NOT WARRANT GRANTING THE PETITION.

In its petition, Quality King has argued that the petition should be granted for policy reasons, including the promotion of competition. At the outset, it should be noted that Quality King seemed to infer that Quality King is a competitor of L'anza. Nothing could be further from the truth. In fact, as noted, in the *L'anza* state court action, Quality King argued that it was a competitor of L'anza and that its conduct was privileged. However, the jury rejected that proposition. (Opp. App. at 7a.)

Quality King has argued that unless this court resolves the conflict between the *Sebastian* decision and the *L'anza* decision, businesses, such as Quality King, will be placed "in an untenable position" because conduct deemed lawful in the Third Circuit could create liability for copyright infringement in the Ninth Circuit. (Petition at p. 19.) Quality King's litigation history suggests that any rule of law, statutory or common law, creates an "untenable" situation for Quality King. *Warner-Lambert Co. v. Northside Development Corp.*, 86 F.3d 3, 8 (2d Cir. 1996) (enjoining Quality King from selling outdated cough drops); *Charles of the Ritz v. Quality King Distributors, Inc.*, 832 F.2d

1317, 1324 (2d Dist. 1987) (enjoining Quality King from using slogan substantially similar to trademark owner's); *Epocha Distributors, Inc. v. Quality King Distributors, Inc.*, 2 U.S.P.Q. 1805 (E.D.N.Y 1987) (enjoining Quality King from importing trademarked goods); *Med-Sales Assoc., Inc. v. Lebhar-Friedman, Inc.*, 663 F. Supp. 908, 909, 910 (S.D.N.Y. 1987) (noting Quality King's involvement in distribution of counterfeit birth-control pills); *see also* Wall Street Journal, Feb. 9, 1996 (reporting suit against Quality King for selling counterfeit Head & Shoulders shampoo).

The claimed dilemma is actually not unlike other issues faced by businesses on a routine basis and solved as a matter of course. For example, if one or more states have higher statutory standards for certain products, such as the application of volatile organic compound legislation on hair sprays,[3] then a business only manufactures or sells products meeting those standards in those states. The business can continue to manufacture or sell products at lower standards in the remaining states. Of course, a business could manufacture or sell products at the higher standards in all states leading to the benefit of all consumers. Thus, the conundrum that Quality King contends it faces is not unlike other problems faced by companies doing business in more than one state on a regular basis. Quality King can either refrain from distributing copyrighted products obtained outside of the United States and imported without the copyright holder's authorization in the Ninth Circuit or Quality King can refrain from selling these copyrighted products completely.

Moreover, in viewing the competition issue, it should be recognized that L'anza, the copyright holder, is a creator and developer of products. Quality King, on the other hand, is an interloper, at most. The rule of law that Quality King proposes would discourage competition. For example, if L'anza cannot

3. *See, e.g.*, 17 California Code of Regulations § 94500, *et seq.*

enter into agreements to distribute and sell its copyrighted products outside of the United States at lower prices without fear of those products being imported into the United States without L'anza's authorization to compete with L'anza's distribution and price structure for products inside the United States, then L'anza will be discouraged from entering into and competing in foreign markets. Thus, the rule proposed by Quality King will have a deleterious effect on United States companies that create and develop products. Consequently, the potential impact on L'anza far outweighs the purported predicament facing Quality King. Quality King, of course, is not a copyright holder. Moreover, Quality King is not a creator or developer of products. Rather, Quality King is merely a "middleman" interfering with the authorized and planned distribution of L'anza's products, and other products, as well, and Quality King simply tries to make a "fast buck" or "fast penny" by diverting products and manufacturing an unnecessary link in the chain of distribution.

Furthermore, adopting the rule of law proposed by Quality King will not result in reduced litigation, as Quality King has argued. (*See* Petition at p. 20.) If the rule of law proffered by Quality King were adopted, creators and developers of copyrighted products, such as L'anza, could never enter foreign markets without contractual provisions to prevent the importation of those copyrighted products into the United States. If unauthorized importation of the copyrighted products from outside the United States were not actionable as copyright infringement, then litigation would proliferate based upon the violation of these contractual provisions. Therefore, public policy does not favor granting Quality King's petition, much less adopting Quality King's proffered rule of law.

IV.

THE *L'ANZA* COURT'S INTERPRETATION OF THE RELATIONSHIP BETWEEN SECTIONS 106(3), 602(a) AND 109(a) IS CORRECT.

As Quality King correctly observes in its petition, in the *L'anza* decision, the Ninth Circuit concluded that the first sale doctrine of 17 U.S.C. § 109(a) did not extend to copyright infringement under 17 U.S.C. § 602(a). As fully discussed within, the Ninth Circuit's conclusion is correct and its interpretation of Sections 106(3), 602(a) and 109(a) is accurate. As a result, it is unnecessary for the court to grant the petition for writ of certiorari.

A. Statutory Interpretation.

In its petition, Quality King has argued that the Ninth Circuit reads Section 602(a) as creating an "importation right" superior to the general right of distribution granted by Section 106(3). (Petition at p. 9.) Quality King argues that the importation right is superior because it is not limited by the first sale doctrine of Section 109(a). (*Id.*) In arguing that the Ninth Circuit's conclusion is in error, Quality King places great emphasis on the fact that Section 602(a) states that the unauthorized importation of works acquired outside the United States "is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501." 17 U.S.C. § 602(a). (Petition at p. 10.) Quality King reasons that if Congress had not intended to make the first sale doctrine a limitation on the importation right, Congress would not have identified the importation right as a subset of the distribution right. This reasoning relies on the proposition that each of the exclusive rights of a copyright owner are completely discrete and distinct. However, the legislative history reveals otherwise.

The exclusive rights articulated in Section 106 are "cumulative and may overlap in some cases. Each of the five enumerated rights may be subdivided indefinitely." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 61 (1976), reprinted in 1976 U.S.C.C.A.N. 5659. The House Committee on the Judiciary explained:

> The five fundamental rights that the bill gives to copyright owners — the exclusive rights of reproduction, adaptation, publication, performance, and display — are stated generally in section 106. These exclusive rights, which comprise the so-called "bundle of rights" that is a copyright, are cumulative and may overlap in some cases. Each of the five enumerated rights may be subdivided indefinitely and, as discussed below in connection with section 201, each subdivision of an exclusive right may be owned and enforced separately.

Id.

More importantly, the statutory language itself reveals that while the importation right may be a form of the distribution right, the two rights are not identical. In 17 U.S.C. § 501, an infringer is defined as follows:

> (a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or of the author as provided in section 106A(a), or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright or right of the author, as the case may be. . . .

Thus, a violation of the importation right under Section 602 is treated separately and distinctly from the rights, including the distribution right, under Section 106.

It is important to remember that "as the term 'copyright' suggests, it is the act of copying which is essential to, and constitutes the very essence of all copyright infringement." 2 Nimmer on Copyright § 8.202[A] (1986). Importation itself can be the equivalent of the act of copying since importation increases the number of copies of a work available in this country. The copyright owners' right to control the number of copies of work in this country can be violated as much by the unauthorized importation of works acquired outside the United States as by mass copying in the United States. Thus, the importation right insures the copyright owner control of the number of copyrighted products in the market by preventing the saturation of the market with unauthorized imports just as the copyright owner has the right to prevent the making of unauthorized copies to prevent a similar saturation.

The *L'anza* court found the situation to be an important problem and that Congress had intended to prevent or protect against this problem by enacting Section 602(a). At pages 1116 and 1117, the court reasoned:

> The *C & C* court explained this point as follows:
>
> > [The] "full value" — the price at which the copyright owner is willing to sell copies of his work — depends on market conditions and, in today's global economy, varies from country to country. For example, the owner of a copyright in a sound recording may

> > demand $10 each to sell 1 million phonorecords of that sound recording in the United States, but may be willing to sell another 1 million phonorecords for $7 each in Australia in order to enter the market there or for some other legitimate business purpose. If the phonorecords originally sold for $7 in Australia are allowed to enter the United States, where they may then be sold again for, say, $8, the United States copyright owner is forced to compete with that price, and thus is prevented from receiving the $10 to which he is entitled for each of the phonorecords initially released into the United States market.

C & C, 832 F. Supp. at 1390-91. Thus, the *C & C* court concluded,

> > [a]pplying the first sale doctrine to actions for unauthorized importation of goods manufactured and first sold abroad would violate [the principle that the copyright owner is entitled to realize the full value of each copy or phonorecord upon its disposition] and defeat Congress' intent, in enacting Section 602(a), to expand importation protection for copyright owners so as to avoid circumvention of the distribution right.

Id. at 1391.

Although *C & C* addressed the importation of copies manufactured outside of the United States, its logic is equally applicable to the scenario at issue here, where the copyright owner sold U.S. manufactured goods at a substantial discount, with the intent that they would be sold exclusively outside of the United States (Quality King concedes that the goods were to be sold outside of the United States). Just as in the example offered by *C & C*, the unauthorized importation of these goods undercuts L'anza's ability to receive the full value for L'anza products sold in the United States through authorized channels, notwithstanding the fact that the imported products were manufactured in the United States and sold by L'anza. As a result, it would contradict the congressional intent underlying §§ 106(3), 109(a) and 602(a) if we were to hold that § 109(a) barred liability under § 602(a) in this case.

Moreover, Section 602(a) also supports the conclusion that the first sale doctrine is not a defense to a violation of that section. Section 602(a) provides:

> (a) Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

This subsection does not apply to —

> (1) importation, of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies of any audiovisual work imported for purposes other than archival use;
>
> (2) importation for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or
>
> (3) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic

> reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2).

Thus, Section 602(a) lists exceptions for the importation of a limited number of copies acquired for personal, scholarly, religious or governmental purposes. As a result, if the "first sale" doctrine shields a party from liability for importing goods legally purchased overseas, then the express exceptions in Section 602(a) for a limited number of copies for personal, scholarly, religious or governmental purposes serves no end. Consequently, if Section 602(a) were construed such that the "first sale" defense superseded Section 602, such a construction would violate the fundamental rule that a statute should be interpreted so as to avoid making any part of it superfluous. *Kungys v. United States*, 45 U.S. 759, 778, 108 S. Ct. 1537, 1550, 99 L. Ed. 2d 839 (1988); *see generally Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1388 (C.D. Cal. 1993).

Commentators have concurred with this interpretation. In 2 Goldstein, *Copyright*, § 5.6.1.2 (2d ed. 1996), the author discusses limits on the first sale doctrine as applied to imported goods:

> Section 602(a) makes the unauthorized importation into the United States of copies or phonorecords acquired outside the United States an infringement of section 106(3)'s distribution right. [Footnote omitted.] Does this mean that section 109(a)'s first sale exemption to section 106(3)'s distribution right is available to importers who acquired ownership of gray market copies or phonorecords lawfully made abroad? Courts

> have generally answered that the first sale defense is not available in these circumstances. [Footnote omitted.] To allow the first sale defense in these circumstances violates the shared principle of sections 106(3) and 109(a) that a copyright owner should, on first sale, be entitled to realize the full value of each copy or phonorecord produced with its authority, since competition with lower priced imports would inevitably prevent the United States copyright owner from realizing the full value of the copies and phonorecords that it sells. Further, to introduce a first sale defense into section 602(a) would obviate that subsection's exemptions for the importation of limited numbers of copies acquired for personal, scholarly or religious purposes, [footnote omitted] since these copies will often by lawfully made gray market goods purchased through normal market channels abroad.

2 Goldstein, *Copyright*, § 5.6.1.2 "Limits on the First Sale Exemption," pp. 5:115-5:116 (2d ed. 1996).

B. Legislative History.

In its petition, Quality King has also argued that the legislative history of the 1976 Copyright Act does not expressly discuss the interaction between Sections 109(a) and 602(a). (Petition at p. 14 n.4.) Quality King also demeans the legislative history cited by the Ninth Circuit in the *L'anza* decision. (*Id.*) However, there is legislative history not cited by the Ninth Circuit in the *L'anza* decision that does support the Ninth Circuit's interpretation.

The legislative history with respect to Section 501 supports the interpretation that the rights under Section 602 are separate and distinct from those under Section 106. The House Committee on the Judiciary noted:

> The bill, unlike the present law, contains a general statement of what constitutes infringement of copyright. Section 501(a) identifies a copyright infringer as someone who "violates any of the exclusive rights of the copyright owner as provided by sections 106 through 188" of the bill, or who imports copies or phonorecords in violation of section 602. Under the latter section an unauthorized importation of copies or phonorecords acquired abroad is an infringement of the exclusive right of distribution under certain circumstances.

H.R. Rep. No. 1476, 94th Cong., 2d Sess. 158 (1976).[4]

The legislative history of Section 602 also supports the interpretation that the first sale doctrine is not a defense to a violation of that section. The Report of the House Committee on the Judiciary states:

> Section 602(a) first states the general rule that unauthorized importation is an infringement merely if the copies or phonorecords "have been acquired outside the United States", but then enumerates three specific exceptions: . . . .

4. The House Report does not include the caveat cited by Quality King with respect to the legislative history cited by the Ninth Circuit in *L'anza*, to wit, no approval or disapproval was given as to the expressed views.

> If none of the three exemptions applies, any unauthorized importer of copies or phonorecords acquired abroad could be sued for damages and enjoined from making any use of them, even before any public distribution in this country has taken place.

Id. at 169-170.

Moreover, the House Committee on the Judiciary viewed Section 603 as the counterpart of Section 109 vis-à-vis Sections 601 and 602. The Committee explained:

> The importation prohibitions of both sections 601 and 602 would be enforced under section 603, which is similar to section 109 of the statute now in effect.

Id. at 170. If the first sale doctrine of Section 109 applied to Section 602, then Section 603 would be unnecessary.

Finally, a review of the report from the House Committee on the Judiciary regarding Section 109 reveals that no reference whatsoever is made with respect to its application to Section 602. *Id.* at 79-81. By the same token, in the part of the report regarding Section 602, no reference whatsoever is made to Section 109, much less that Section 109 applies to Section 602. *Id.* at 169-170. Consequently, notwithstanding Quality King's argument to the contrary, the Copyright Act itself, as well as its legislative history, strongly supports the interpretation that the first sale doctrine under Section 109(a) has no application to a violation of Section 602(a). Therefore, the Ninth Circuit's holding in the *L'anza* decision was correct, and Quality King's petition should be denied.

CONCLUSION

The petition should be denied.

Respectfully submitted,

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APPENDIX A — SATISFACTION OF JUDGMENT OF THE UNITED STATES DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA, WESTERN DIVISION FILED MARCH 25, 1997

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Attorneys for Plaintiff L'anza Research International, Inc., a California corporation

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

WESTERN DIVISION

CASE NO. CV-94 0841 JSL

L'ANZA RESEARCH INTERNATIONAL, INC., a California corporation,

Plaintiff,

vs.

QUALITY KING, INC., a New York corporation; BOB PACE, an individual; THE VONS COMPANIES, INC., a Michigan

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corporation; LONGS DRUG STORES CORPORATION, a Maryland corporation; LONGS DRUG STORES CALIFORNIA, INC., a California corporation; DRUG EMPORIUM, INC., a Delaware corporation; and RANCHO DEL MAR PHARMACY, INC. dba VASSEY DRUGS, L. INTERTRADE, LTD., an entity of unknown form; and MR. HANIF, an individual,

Defendants.

SATISFACTION OF JUDGMENT

PLEASE TAKE NOTICE that payment having been made, full satisfaction of the monetary judgment is hereby acknowledged; however, the permanent injunction in the judgment remains in full force and effect.

DATED: March __, 1997.

RAYMOND H. GOETTSCH, a Member of
LaTORRACA and GOETTSCH
A Law Partnership Attorneys for Plaintiff L'anza
Research International, Inc., a
California corporation

APPENDIX B — JUDGMENT ON SPECIAL VERDICT OF THE SUPERIOR COURT OF THE STATE OF CALIFORNIA FOR THE COUNTY OF LOS ANGELES FILED AUGUST 30, 1995

SUPERIOR COURT OF THE STATE OF CALIFORNIA
FOR THE COUNTY OF LOS ANGELES

CASE NO. BC089231

L'ANZA RESEARCH INTERNATIONAL, INC., a California corporation,

Plaintiff,

vs.

QUALITY KING, INC., a New York corporation; BOB PACE, an individual; THE VONS COMPANIES, INC., a Michigan corporation; LONGS DRUG STORES CORPORATION, a Maryland corporation; LONGS DRUG STORES CALIFORNIA, INC., a California corporation; DRUG EMPORIUM, INC., a Delaware corporation; and DOES 1 through 1000, inclusive,

Defendants.

JUDGMENT ON SPECIAL VERDICT

This action came on regularly for trial by jury on April 14, 1995 with plaintiff L'anza Research International, Inc. appearing by its attorneys, LaTorraca and Goettsch, and defendant Quality King Distributors, Inc., appearing by its attorneys, Rintala, Smoot, Jaenicke & Brunswick. A jury of 12 persons was duly impaneled and sworn, witnesses testified, and after being duly instructed by the court, the jury deliberated, and on May 18, 1995, returned the following special verdict:

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SPECIAL VERDICT

We the jury in the above-entitled action make the following findings of fact on the questions submitted to us:

QUESTION NO. 1:

Do you find from a preponderance of the evidence that defendant Quality King Distributors, Inc. intentionally induced a breach of a contract between plaintiff L'anza Research International, Inc. and one or more of its distributors?

Answer: "Yes" or "No."

Answer: *Yes.*

Now answer Question No. 2.

QUESTION NO. 2:

Do you find from a preponderance of the evidence that defendant Quality King Distributors, Inc. conspired to intentionally induce a breach of a contract between L'anza Research International, Inc. and one or more of its distributors?

Answer: "Yes" or "No."

Answer: *Yes.*

Now answer Question No. 3.

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QUESTION NO. 3:

Do you find from a preponderance of the evidence that defendant Quality King Distributors, Inc. intentionally interfered with the contractual relations between plaintiff L'anza Research International, Inc. and one or more of its distributors?

Answer: "Yes" or "No."

Answer: *Yes.*

Now answer Question No. 4.

QUESTION NO. 4:

Do you find from a preponderance of the evidence that defendant Quality King Distributors, Inc. conspired to intentionally interfere with the contractual relations between plaintiff L'anza Research International, Inc. and one or more of its distributors?

Answer: "Yes" or "No."

Answer: *Yes.*

Now answer Question No. 5.

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QUESTION NO. 5:

Do you find from a preponderance of the evidence that defendant Quality King Distributors, Inc. intentionally interfered with the prospective economic advantage of plaintiff L'anza Research International, Inc.?

Answer: "Yes" or "No."

Answer: *Yes*.

Now answer Question No. 6.

QUESTION NO. 6:

Do you find from a preponderance of the evidence that defendant Quality King Distributors, Inc. conspired to intentionally interfere with the prospective economic advantage of plaintiff L'anza Research International, Inc.?

Answer: "Yes" or "No."

Answer: *Yes*.

Now answer Question No. 7.

QUESTION NO. 7:

Do you find from a preponderance of the evidence that defendant Quality King

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Distributors, Inc. negligently interfered with the prospective economic advantage of plaintiff L'anza Research International, Inc.?

Answer: "Yes" or "No."

Answer: *Yes*.

If you answered "Yes" to either Question No. 5, Question No. 6, *or* Question No. 7, then answer Question No. 8. If you answered "No" to Question No. 1, Question No. 2, Question No. 3, Question No. 4, Question No. 5, Question No. 6, *and* Question No. 7, then sign and return this verdict form.

QUESTION NO. 8:

Do you find from a preponderance of the evidence, that the conduct by defendant Quality King Distributors, Inc., upon which you found liability for intentional interference with prospective economic advantage and negligent interference with prospective economic advantage, was privileged?

Answer: "Yes" or "No."

Answer: *No*.

If you answered "Yes" to either Question No. 1, Question No. 2, Question No. 3, *or*

Question No. 4, then answer Question No. 9. If you answer "Yes" to either Question No. 5, Question No. 6 *or* Question No. 7, *and* you answered "No" to Question No. 8, then answer Question No. 9.

If you answered "No" to Question No. 1, Question No. 2, Question No. 3, Question No. 4, Question No. 5, Question No. 6, *and* Question No. 7, then sign and return this verdict form. If you answered "No" to Question No. 1, Question No. 2, Question No. 3, Question No. 4, *and* you answered "Yes" to Question No. 8, then sign and return this verdict form.

QUESTION NO. 9:

By a preponderance of the evidence, what do you find to be the total amount of damages, if any, suffered by plaintiff L'anza Research International, Inc. as a legal cause of the conduct by defendant Quality King Distributors, Inc. upon which you found liability?

Answer: *$480,000.*

If you answered "Yes" to either Question No. 1, Question No. 2, Question No. 3, *or* Question No. 4, then answer Question No. 10. If you answered "Yes" to either Question No. 5 *or* Question No. 6 *and* you answered

"No" to Question No. 8, then answer Question No. 10. Otherwise, sign and return this verdict form.

QUESTION NO. 10:

Do you find by clear and convincing evidence that defendant Quality King Distributors, Inc. was guilty of malice or fraud?

Answer: "Yes" or "No."

Answer: *Yes.*

Now, sign and return this verdict form.

Thereafter, additional evidence was entered into evidence through a stipulation by the parties. The same 12-person jury was further instructed by the court and deliberated, and on May 23, 1995, returned the following special verdict:

SPECIAL VERDICT

We the jury in the above-entitled action make the following findings of fact on the questions submitted to us:

QUESTION NO. 11:

By clear and convincing evidence, what is your award of punitive damages, if any, against defendant Quality King Distributors, Inc.?

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State an amount: $*3,400,000.*

Now, sign and return this verdict form.

Thereafter, the parties, through their respective counsel, stipulated to having L'anza's request for a permanent junction under Business and Professions Code § 17203 in L'anza's cause of action for unfair competition under Business and Professions Code § 17200 *et seq.* decided on a motion for a permanent injunction to be set for hearing on or after June 9, 1995. On June 14, 1995 and July 28, 1995, the court after hearing oral argument and reading the moving, opposing and reply papers on L'anza's motion for a permanent injunction and duly considering the same, found that defendant Quality King Distributors, Inc., its agents, servants, employees, principals, subsidiaries and affiliates should be enjoined under Business and Professions Code § 17203 from purchasing, offering to sell, selling or in any way selling or transferring to others any L'anza hair care products that were originally sold by L'anza within the United States. The court also ordered that Quality King may send any L'anza product that it intends to buy, sell, or dispose of to L'anza in the product's original carton and that L'anza shall inform Quality King within ten (10) days of receipt as to whether that particular product had previously been sold by L'anza within the United States and then return the product to Quality King at Quality King's expense. Thereafter, if L'anza has informed Quality King that a particular L'anza product was not previously sold by L'anza within the United States, Quality King shall not be in violation of this injunction by buying, offering to sell, selling, or transferring the product so identified by L'anza.

NOW, THEREFORE, IT IS ORDERED, ADJUDGED AND

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DECREED that plaintiff L'anza Research International, Inc. recover from defendant Quality King Distributors, Inc., $3,880,000 and costs in the amount of $_____.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that defendant Quality King Distributors, Inc., its agents, servants, employees, principals, subsidiaries, affiliates, or all those in active concert or participation with it are hereby enjoined and prohibited from purchasing, offering to sell, selling or in any way selling or transferring to others any L'anza hair care products that were originally sold by L'anza within the United States.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that Quality King may send any L'anza product in its original carton that it intends to buy, sell, or dispose of and L'anza shall inform Quality King within ten (10) days of receipt as to whether that particular L'anza product had previously been sold by L'anza within the United States and then return the product to Quality King at Quality King's expense. Thereafter, if L'anza has informed Quality King that a particular L'anza product was not previously sold by L'anza within the United States, Quality King shall not be in violation of this injunction by buying, offering to sell, selling, or transferring the product so identified by L'anza.

DATED: _____, 1995.

_____

JUDGE OF THE SUPERIOR COURT